

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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The current woes in the nation's financial sector have put the focus on Wall Street. However, it is important to remember Americans still face economic challenges from Main Street to the Beltway. One of these issues is the federal deficit. A reminder of this was issued by the Congressional Budget Office (CBO) that estimated the FY 2008 unified federal deficit would be \$407 billion—up from \$161 billion the previous year. This increase results from an anticipated small decline (0.8%) in total revenues from FY 2007 and an 8.3% increase in outlays. To offer some perspective on the size of the deficit, it is 2.9% of Gross Domestic Product (GDP) in FY 2008, which is more than twice the previous year's 1.2% share.

The federal deficit is expected to remain above \$400 billion through FY 2010. Revenues are projected to recover in FY 2011 and the deficit falls below \$400 billion for the first time in three years. It drops below \$200 billion in FY 2012 and remains there through FY 2015. Over this period federal revenues recover from a low of about 18% of GDP to around 20%. Expenditures, on the other hand, hover near 21% of GDP. As a result, the deficit's share of GDP deflates from a high of 3.0% in FY 2009 to 0.8% in FY 2015.

The deficit improves in the short term, but it does not disappear. In fact, assuming no major program changes from current practices, it is expected to get much worse in the coming decades. The main reason for this is rising health care spending. In his testimony to the U.S. Senate Finance Committee (http://www.cbo.gov/ftpdocs/93xx/doc9385/06-17-LTBO_Testimony.pdf) CBO Director Peter R. Orzag reported,

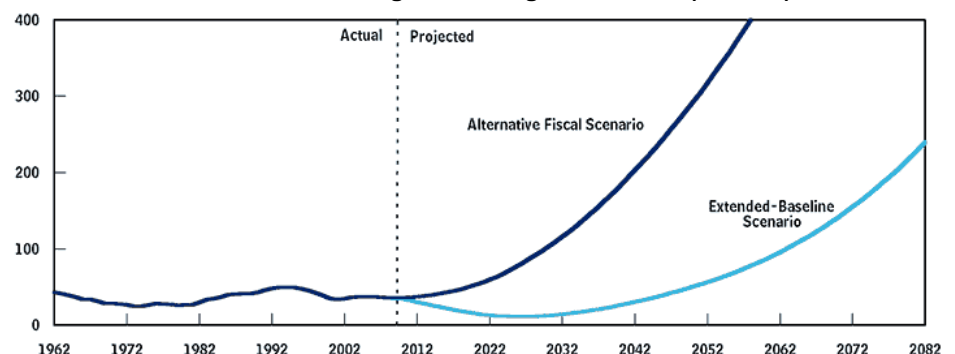
"...total federal Medicare and Medicaid outlays will rise from 4 percent of GDP in 2007 to 12 percent in 2050 and 19 percent in 2082...." He goes on to say, "The bulk of that projected increase in health care spending reflects higher costs per beneficiary rather than an increase in the number of beneficiaries associated with an aging population. The aging population, though not the primary factor driving higher government spending in the future, will nonetheless exacerbate fiscal pressures." In comparison, Social Security outlays are expected to eventually stabilize at around 6% of GDP, which is far lower than combined Medicare and Medicaid share.

Under the conditions outlined above, the federal budget deficit increases over time, swelling from one percent of GDP in 2030 to just over 18% in 2082. In addition to Medicare and Medicaid outlays, the deficit is also fueled by higher interest payments caused by increased borrowing requirements. Specifically, it goes from less than one percent of GDP in 2030 to 11% by 2082. Of course, other outcomes are also possible. Director Orzag's testimony includes an alternative scenario that tweaks its baseline forecast by raising

the growth rate of physicians' payments, raising other spending's share of GDP, and adjusting the Alternative Minimum Tax parameters for inflation, which are considered the most likely future policy changes. But instead of fixing the deficit, they make it worse. The first two items increase federal outlays while the last item lowers revenues. The net effect of these changes is a tidal wave of red ink that causes the federal deficit's share of real GDP to bloat from around 10% in 2030 to nearly 55% in 2082.

Given the long timeline involved it is tempting to postpone dealing with the looming deficit crises. However, this timeline is not lead time. Pressure from budget shortfalls will build sooner than 2082 and its impacts will be felt far beyond the Beltway. According to Director Orzag, "...sustained and rising budget deficits would absorb funds from the nation's pool of savings and reduce investment in the domestic capital stock and in foreign assets. As capital investment dwindled, the growth of workers' productivity and of real wages would gradually slow and begin to stagnate." With no less than the nation's economic future at stake, this is a problem that cannot be ignored.

Federal Debt Held by the Public as a Percentage of Gross Domestic Product Under CBO's Long-Term Budget Scenarios (Percent)



Idaho General Fund Update

As of August 31, 2008

\$ Millions			
Revenue Source	FY 2009 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,334.7	184.5	180.5
Corporate Income Tax	150.2	6.4	10.2
Sales Tax	1,134.0	203.6	205.8
Product Taxes ¹	29.7	6.2	6.2
Miscellaneous	117.7	19.0	17.4
TOTAL GENERAL FUND²	2,766.3	419.7	420.2

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2008

Overall General Fund revenue collections were stable in August, coming in just \$0.1 million below the amount expected for the month. This leaves the year-to-date result a modest \$0.5 million ahead of expectations. This is a tiny 0.1% positive margin, but it is positive. FY 2008 actual General Fund revenue through August 2007 was \$436.6 million, meaning that the expected growth rate for FY 2009 General Fund revenue through August 2008 was -3.9%. The actual General Fund revenue growth rate of -3.8% is the reason Idaho now has a small cushion.

Once again, individual income tax (IIT) revenue was lower than expected for the month, coming in \$1.8 million below expectations. This brings the cumulative IIT result to a level \$4.0 million below the expected amount. This is \$7.5 million below actual cumulative IIT revenue from last fiscal year. Instead

of the -1.9% decrease that was expected, IIT revenue for the first two months of FY 2009 was -4.0% below the same period a year earlier. Although year-to-date filing collections were \$2.0 million higher than expected, this was swamped by withholding payments that were \$6.5 million lower than expected for the first two months of FY 2009. Refunds and miscellaneous distributions are \$0.4 million lower than expected.

Corporate income tax (CIT) revenue was \$2.9 million higher than expected in August, bringing the fiscal year-to-date figure to a level \$3.8 million above the expected amount. A decline of 32.6% was expected for the first two months of FY 2009 versus the same period a year earlier, but the actual outcome was an increase of 7.4%. The two dominant factors behind this result are estimated payments that are \$2.6 million higher than expected and refunds that are \$1.6 million lower than expected.

Sales tax revenue was \$0.3 million lower than expected in August, after being \$2.5 million higher than expected in July. This brings the fiscal year-to-date result to a level that is \$2.2 million higher than expected. Cumulative year-over-year growth was expected to be a decline of 5.1%, but the actual decline came in at a more modest 4.1%.

Product taxes were slightly (\$0.2 million) above target in August, bringing the fiscal year-to-date result to dead even. This reflects an expectation of 1.6% growth. Miscellaneous revenue was \$1.1 million lower than expected for the month, and stands \$1.6 million below the amount expected for the first two months of FY 2009. Cumulative year-over-year growth of 3.3% was expected, but the actual result for FY 2009 was a decline of 5.4%. This revenue category's weakness is primarily due to a large unclaimed property payout in August.

